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TAX FOUNDATION'S MONTHLY VOL. 28, NO. 6 JUNE-JULY 1984

TAX·FEATURES

ERTA's Tax Relief No Panacea For Top Earners

Family's Buying Power Cut 7.3% from 1974 to 1984 By Inflation and U.S. Taxes

Inflation and direct Federal taxes have eroded the prototypical U.S. family's purchasing power, measured in constant 1974 dollars, by $801, according to analysts at the Tax Foundation. This family—one earner employed full-time, year-round, married, with two dependent children—has 7.3 percent less purchasing power in 1984 than it had in 1974. And the erosion has occurred, say economists at the Washington-based tax watchdog organization, despite the recent slowing of inflation and reductions in the individual income taxes.

On the plus side, this downward trend in the family's real income—after Federal taxes—has been reversed in recent years, Foundation economists say. Real purchasing power of the family had declined every year from 1976 to 1981. Because of the rate reductions in the Economic Recovery Tax Act of 1981 (ERTA) and the recent drop in the rate of inflation, real purchasing power after Federal taxes has risen since 1982. It is estimated that the family's purchasing power, in constant dollars, will be 5.6 percent higher this year than it was in 1981—although it is still lower than it was 10 years ago.

The combined effects of ERTA's income tax cut and social security tax increases reduced the family's direct Federal taxes in 1984 by a net of $605 since 1980. The

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Top earners have not benefited greatly under the Economic Recovery Tax Act of 1981 (ERTA), contrary to some earlier forecasts, say economists at the Tax Foundation. Even with sharp reductions in the highest marginal rates, more of the Federal income tax burden has apparently been shifted to them.

Taxpayers in the top 5 percent of income levels in 1982, according to researchers at the Washington-based tax watchdog organization, saw negligible decreases in their bills with reductions averaging .02 percent. All other taxpayers combined enjoyed tax reductions averaging 3.9 percent that year.

For all income groups, the overall tax reduction in 1982 averaged 2.5 percent per return, and the effective tax rate, measured against taxable income, fell from 20.3 percent in 1981 to 19.0 percent in 1982. Although ERTA provided an 8.75 percent across-the-board tax cut, the effective rate was thus reduced by only slightly more than 1 percentage point. Tax Foundation analysts attribute these results to the effects of rising incomes and the progressive rate structure.

The Federal individual income tax bill for tax year 1982 came to $278.5 billion, or $7.3 billion (2.6 percent) lower than 1981's all-time high of $285.8 billion. Except for increasing relative burdens at the very highest income levels, this overall tax reduction resulted in only minor changes in the share of total tax burdens paid by most American income groups.

Over one-third of the 1982 tax bill was shouldered by the 4.7 million taxpayers in the top 5 percent income group. The average tax for this group dropped from $21,358 to $21,354, down .02 percent.

The top 10 percent of income earners—those earning $39,792 or more in 1982—continued to pay almost 50 percent of the tax bill. This group, comprising 9.5 million returns, had an average tax bill of $14,355 in 1982, down about 1.1 percent from 1981. Their computed share of the tax bill was 48.7 percent in 1982, up from 48.0 percent in 1981.

Over 90 percent of the 1982 total was paid by the top 50 percent of income earners—those getting $14,500 or more. Although their 92.6 per-

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Federal Income Taxes Paid by High- and Low-Income Taxpayers

1981 and 1982

Adjusted gross income class	Income level		Percent of tax paid		Average tax	
	1981	1982	1981	1982	1981	1982
Highest 5 percent	$48,598 or more	$49,633 or more	35.3	36.2	$21,358	$21,354
Highest 10 percent	38,733 or more	39,792 or more	48.0	48.7	14,519	14,355
Highest 25 percent	25,768 or more	26,992 or more	72.3	72.2	8,750	8,513
Highest 50 percent	14,029 or more	14,500 or more	92.6	92.6	5,599	5,458
Lowest 50 percent	14,028 or less	14,499 or less	7.4	7.4	450	438
Lowest 25 percent	6,578 or less	6,907 or less	.7	.8	83	96
Lowest 10 percent	2,725 or less	2,796 or less	(a)	.1	15	41

[a]Less than .05 percent.
Source: Tax Foundation computations based on Treasury Department data.

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family paid $752 less in income taxes than it would have paid under pre-ERTA tax rates. On the other hand, its social security taxes rose $147 as the tax rate went from 6.13 percent to 6.7 percent.

From 1974 to 1984, while pre-tax income was rising by 98 percent, from $13,004 to $25,700, direct Federal taxes were climbing by 105 percent, from $2,028 to $4,150. Income tax liabilities went from $1,267 to $2,428, an increase of $1,161 or 92 percent. Social security taxes jumped from $761 to $1,722, or 126 percent, as increasing amounts of revenues were needed to pay for the higher benefits resulting from the indexing of those benefits to the Consumer Price Index (CPI) as well as the increase in the number of beneficiaries.

While the increase in direct Federal taxes reduced the family's gain as measured in nominal dollars by $2,122, its gain, before taking inflation into account, was still $10,574, or 96 percent for the decade. As a proportion of the family's income, direct Federal taxes ranged from a low of 14.1 percent in 1975 to a high of 17.2 percent in 1981. In 1984, these taxes are estimated to be 16.1 percent of the family's income.

For the period 1974 to 1984, the price level, as measured by the CPI, more than doubled, bringing the purchasing power of each dollar down to 47 cents, in 1974 dollars. The combination of rising prices and a rising tax bite diminished the purchasing power of the family by 7.3 percent for the decade.

The table below provides further details.

Median Family Incomes Before and After Direct Federal Taxes and Inflation

1974-1984

Year	Median family income[a]	Direct Federal taxes: Income tax[b]	Direct Federal taxes: Social security	Direct Federal taxes: Total	After-tax income: Current dollars	After-tax income: 1974 dollars[c]
1974	$13,004	$1,267	$ 761	$2,028	$10,976	$10,976
1975	14,156	1,172	825	1,997	12,159	11,145
1976	15,016	1,388	878	2,266	12,750	11,049
1977	15,949	1,466	933	2,399	13,550	11,025
1978	17,318	1,717	1,048	2,765	14,553	11,000
1979	19,048	1,881	1,168	3,049	15,999	10,869
1980	20,586	2,143	1,262	3,405	17,181	10,282
1981	21,462	2,267	1,427	3,694	17,768	9,636
1982	23,036	2,342	1,543	3,885	19,151	9,786
1983[d]	24,140	2,296	1,617	3,913	20,227	10,013
1984[d]	25,700	2,428	1,722	4,150	21,550	10,175

[a]Median income for all families with one earner employed full-time, year-round.
[b]Married couple filing joint return, two dependent children.
[c]Adjusted by Consumer Price Index of the Bureau of Labor Statistics.
[d]Estimated by Tax Foundation.
Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Treasury Department, Internal Revenue Service; and Tax Foundation computations.

Monthly Tax Features

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cent share of the 1982 Federal individual income tax bill was precisely the same as in 1981, their average tax of $5,458 dropped 2.5 percent.

The lower 50 percent of earners—those with income of $14,499 or less in 1982—paid only 7.4 percent of the Federal income tax bill in both years. Their average 1982 taxes dropped 3.1 percent, from $450 to $436.

Earners in the lowest 25 percent income group—those making $6,907 or less—paid just 0.8 percent of the Federal income taxes in 1982. Their average tax of $96 per return was up $13 from the previous year.

The average tax for all taxpayers in 1982 was $2,922, down from $3,000 in 1981, a decrease of just over 2.5 percent, according to Tax Foundation economists.

The number of millionaires jumped markedly by almost 50 percent between 1981 and 1982. In 1982, 8,203 persons reported incomes of $1,000,000 or more—2,691 more than in 1981. These millionaires paid an average tax of $844,339 in 1982 (49 percent of taxable income).

Adjusted gross income (AGI) reported on 1982 tax returns totaled $1.85 trillion, an increase of 3.9 percent from 1981. Wages and salaries, which make up over 80 percent of AGI, rose by 5.1 percent, gross interest by 12.4 percent, gross dividends by 11.8 percent, and capital gains (less losses) by 9.2 percent from 1981 to 1982.

ERTA provisions affecting 1982 tax yields included a cumulative 10 percent across-the-board reduction in rates (8.75 percent in 1982 and 1.25 percent in 1981); a reduction in the top marginal rate on all income from 70 percent to 50 percent on January 1, 1982, bringing the maximum tax on capital gains down from 30 percent to 20 percent; liberalized rules for individual retirement arrangements (IRAs); and the introduction of the two-earner, married couple, deduction.

Returns for tax year 1982 reflected the second stage of the ERTA reduction. Further tax cuts becoming effective after 1982 include cumulative across-the-board rate reductions (from pre-ERTA levels) reaching 19 percent in 1983 and 23 percent in 1984; and inflation adjustments in the income tax brackets, the zero bracket amounts, and personal exemptions beginning in tax year 1985.

The table on page 1 provides further details.

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1983," April 1984, 10 pp.

Facts and Figures on Government Finance—1983, 22nd Biennial Edition, 364 pages, $20.00.

Consumption Tax: An Idea Whose Time is Coming, 16 pp., $5.00.

Fiscal Policy Forum, "At Issue: Tax Compliance," Spring 1984, 8 pp.

The Reagan Budget: 1985-1989, by E.M. Watters, March 1984, 6 pp.

"Taxes, Spending and Growth—Seeking a Balance," Proceedings of Tax Foundation's 35th National Conference, 31 pages, $8.00.

Please include $1.00 for postage and handling on all orders.

Growth of State Taxes Smallest in 25 Years

State taxes continued to rise in fiscal year 1983, as they have every year on record, but the year's advance was the smallest in the last 25 years.

Fiscal 1983 collections of state general taxes (i.e., excluding unemployment levies) totaled $171.4 billion, up $8.8 billion, or 5 percent, from $162.6 billion a year earlier. The percentage gain was the smallest reported since 1958, when state taxes rose by less than 3 percent. In the ensuing years, through fiscal 1982, annual gains had averaged more than 10 percent.

The slower growth in 1983, primarily a result of the recession, occurred despite extensive efforts of the states to shore up sagging revenues by statutory tax hikes in the last three years, say Tax Foundation analysts.

The latest year's experience notwithstanding, state taxes have grown significantly over the past decade. Fiscal 1983 revenues were up by $103.3 billion, or 152 percent, from the $68.1 billion collected ten years earlier. The decade's advance paralleled the concurrent rise in gross national product (also 152 percent), but fell short of the increase in personal income (157 percent).

For further information and a state-by-state comparison of per capita tax levels in 1973 and 1983, including the percentage distribution of the states' 1983 taxes by major source, contact the Tax Foundation at One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005 (202/822-9050).

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"The Pickoff Play"

The pickoff play isn't limited to baseball. It has been used very successfully in recent years by tax writers on both sides of the Capitol and both sides of the aisle. ERTA—the Economic Recovery Tax Act of 1981—gave the nation the most significant, capital-formation oriented tax legislation since the 1963 Kennedy round of tax cuts.

ERTA was no fluke. The bill, with its emphasis on savings, R&D, and investment in plants and capital equipment had been in the works for about five years. However, most of the labor was carried on informally, behind the scenes, away from the glare of TV lights and the competing pressures of interest groups.

ERTA's basic approach to tax policy was sound—and bipartisan. Then, when the lights came on and the special interests entered the picture, a bidding war erupted, with Democrats and Republicans vying to see who could fatten the package most. Then came the severe recession into which the nation soon plummeted, as the American people paid for the sins of a generation of give-aways.

Panicked by the combination of reduced tax revenues and a severe economic downturn, the elected leadership gave us TEFRA, the Tax Equity and Fiscal Responsibility Act of 1982. In no sense either equitable or fiscally responsible, TEFRA was a revenue grab, pure and simple, because Congress was unwilling and/or unable to deliver on the cuts promised the year before. In fact, Congress eventually was shown to be unwilling or unable to deliver on the cuts which were promised as part of TEFRA. Early talk was of $3 in spending cuts for every $1 in tax hikes—although this has subsequently been denied.

Given the usual shell game legislative committees play with revenue estimates, appropriations, authorizations, and interest and inflation rate projections, and so on, it is virtually impossible to document this 3-for-1 pledge as TEFRA flowed through the congressional pipeline in 1981-82. What can be documented is that Congress decided that almost $100 billion needed to be raised, and that targets of opportunity were picked off one at a time until that dollar amount was reached.

The only thing deliberative or rational in the formulation of TEFRA was the way in which Congress played the various elements of the business community against one another in a successful effort to prevent resistance to the gutting of ERTA.

Now in 1984 comes the so-called down-payment on the deficit. Once again, we hear of a quid-pro-quo: roughly a two-for-one pledge of spending cuts for tax hikes. Aside from the fact that this coupling of taxes and outlays starts us on a dangerous path of yoking every spending reduction to a tax increase without the increase even having to be justified, there is another procedural problem. A tax increase is forever, whereas the special appropriation process gives Congress or any Administration plenty of opportunities to evade commitments to reduce spending. This, we submit, is a dangerous precedent indeed.

ERTA came into being because the business community stood united, four-square behind comprehensive, long-range tax planning. TEFRA—and this year's as yet unnamed assemblage—have come into being because once again the tax writers have proven their ability to use short-term tax advantages to fragment the long-term interests of the private sector. In short, they are masters of the pickoff play. Only there's much more at stake here than a baseball game.

"ERTA came into being because the business community stood united, four-square behind comprehensive, long-range tax planning."

Governments Now Spending $16,652 Per U.S. Family

"In the past seven years, total government spending has more than doubled, rising from $680.3 billion in 1977 to $1,411.7 billion in 1984."

Federal, state, and local governments will spend $6,011 for every person in the United States, or $16,652 for each U.S. household in the current fiscal year, according to Tax Foundation estimates. Total outlays will top $1.4 trillion.

Compared to last year, fiscal 1984 spending will rise by an estimated $96.5 billion, or 7.3 percent, Tax Foundation economists say. Federal spending is expected to increase by $65 billion, or 7.6 percent, while state-local outlays are expected to grow by $31.5 billion, or 6.8 percent.

The Federal government accounts for about 65 percent of total public spending ($917.2 billion). Since 1950, the Federal share of the rising public expenditure total has remained fairly constant. Except for the period of the Korean War, when it accounted for more than 70 percent of all spending, the Federal share has ranged from a high of 69.8 percent in 1954 to a low of 60.7 percent in 1972.

In the past seven years, total government spending has more than doubled, rising from $680.3 billion in 1977 to $1,411.7 billion in 1984. During this period, Federal spending has risen by 113 percent, while state and local spending from their own sources has risen by 98 percent.

During the 1950s and 1960s, government spending grew at an annual average rate of about 8 percent. During the 1970s, the rate accelerated to 11.2 percent annually. For the first four years of the 1980s, the rate has dropped back slightly to about 10.2 percent per year.

On a per capita basis, government spending is projected to rise by 93 percent from 1977 to 1984, from $3,111 to $6,011. Since the number of households is growing more rapidly than the population as a whole, per household spending will rise by 81.5 percent, from $9,176 to $16,652 during this period.

Ever since 1950, spending by governments has tended to outpace growth in the overall economy, as measured by Gross National Product (GNP). Total government expenditures moved up from 21.3 percent of GNP in 1950, to 26.9 percent in 1960, 31.6 percent in 1970, and to 35.4 percent in calendar year 1983. Over the past 13 years, the state-local share of this spending has declined slightly in relation to GNP, from 11.0 percent in 1970 to 10.4 percent in 1983. On the other hand, Federal outlays have risen from 20.6 percent of GNP in 1970 to 25.0 percent in 1983, the latest year reported.

The table below provides additional details on Federal, state, and local government expenditures.

Federal, State, and Local Government Expenditures[a]

Selected Fiscal Years 1950-1984

Fiscal year	Amount (billions)			Total expenditures	
	All governments	Federal	State and local	Per household	Per capita
1950	$ 70.3	$ 44.8	$ 25.5	$ 1,614	$ 466
1960	151.3	97.3	54.0	2,866	847
1965	205.7	130.1	75.6	3,581	1,067
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,875	2,612
1976	625.1	389.9	235.2	8,579	2,886
1977	680.3	430.6	249.7	9,176	3,111
1978	745.4	477.8	267.6	9,804	3,373
1979	832.4	535.7	296.7	10,764	3,726
1980	958.6	615.4	343.2	11,867	4,243
1981	1,109.8	717.4	392.4	13,474	4,859
1982	1,231.4	794.7	436.7	14,743	5,341
1983[b]	1,315.2	852.2	463.0	15,672	5,651
1984[b]	1,411.7	917.2	494.5	16,652	6,011

[a]Grants-in-aid are counted as expenditures of the first disbursing unit.
[b]Estimated by Tax Foundation.
Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

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TAX FOUNDATION'S VOL. 28, NO. 7 AUGUST-SEPTEMBER 1984

TAX·FEATURES

TF's Tax Index Jumps 17.2% Outpacing Economic Growth Rate

Boosted by sharply rising social security and corporate income taxes, the Tax Foundation's Tax Index for the first quarter of 1984 moved up at an annual rate of 17.2 percent from the previous quarter, outpacing a widely heralded hike of 14.9 percent in current dollar gross national product (GNP).

The latest rise in the Tax Index, to a new peak of 472.0 (1967 = 100), meant that Federal, state, and local governments were collecting taxes in the first quarter 1984 at an annual rate of more than $1 trillion. Both Federal and State-Local Indexes reached new highs in the first quarter. The Federal Tax Index stood at 454.2 (reflecting $673 billion in tax receipts at an annual rate), while the State-Local Index for the first time moved beyond the 500 level, to 509.1 (mirroring annualized re-

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U.S. Deficit Estimates Lowered But Interest Costs Climb

Concerns about long-term Federal finances were hardly assuaged in mid-August by a new barrage of official budget projections extending out to 1989, according to Tax Foundation analysts. The Office of Management and Budget (OMB) said that by fiscal year 1989 the Federal budget deficit could be as low as $21 billion (based on high-growth assumptions, with some recommended policy changes) or as high as $229 billion (low-growth assumptions).

Shortly before, the Congressional Budget Office (CBO) reported that, absent any policy initiatives and with less optimistic assumptions about future interest rates and economic growth than those of OMB, the budget deficit would reach $263 billion by 1989.

While there is little similarity between the OMB and CBO projections in the out years (i.e., beyond 1985), one common note of accord was sounded. As a result of better economic performance so far in 1984, aided by somewhat modest Congressional actions to shave forthcoming deficits, the fiscal outlook for the near term is better than was envisaged earlier this year. OMB, for example, now estimates the fiscal 1984 deficit (budget and off-budget, under current policies) at $187.1 billion, down from $203.6 billion estimated last February, and the fiscal 1985 deficit at $190.1 billion, down from $225.6 billion earlier.

Even so, the near-term improvement provides little immediate comfort to a Treasury that is rapidly bumping up against its legal borrowing capacity, nor to taxpayers concerned about rising claims on their tax dollars, say Tax Foundation economists.

Since the current fiscal year began, Congress has approved three increases in the debt ceiling, to allow the Treasury to pay the bills for programs previously written into law. Last November, the debt ceiling was raised by $101 billion to $1.490 trillion. In May of this year, there was another $30 billion hike to last until June—putting the interim ceiling at $1.520 trillion. Again in late June another law raised the limit by $53 billion, setting a new ceiling of $1.573 trillion.

In August, the Administration put forth another proposal to increase the public debt ceiling—to either $1.589 trillion, the amount needed to cover Treasury fi-

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Tax Index and Related Measures
Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods, 1970 to 1984

Calendar year and quarter	Tax Index			Output Index[a]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[b]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	422.1	408.0	451.6	383.9	146.3	262.3
1983	446.7	424.2	493.7	413.3	151.7	272.4
Quarterly						
1981 I	404.6	409.5	394.3	358.5	149.3	240.1[c]
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.8	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	416.4	402.3	445.7	388.9	146.2	266.0
1983 I	424.0	410.3	452.4	396.9	147.4	269.2
II	443.0	429.8	470.4	408.6	150.8	271.0
III	443.6	423.4	485.7	418.5	153.3	273.1
IV	453.6	433.1	496.1	429.2	155.5	276.0
1984 I	472.0	454.2	509.1	444.4	159.3	279.0

[a] Gross national product.
[b] Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

"Interest payments on the debt will represent about 13 cents per dollar of budget outlays in fiscal 1984."

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nancing through September 30, 1984, or to $1.829 trillion, which would last through September 30, 1985. After a Treasury spokesman said that a heavy inflow of corporate taxes due September 15 would provide enough cash to last until the end of September or early October, Congress postponed action on the debt request. It is expected to come up again after the three-and-a-half week Congressional recess that began in mid-August.

OMB's recent report that the deficits would be somewhat lower than previously estimated was accompanied by a warning that interest costs, nevertheless, would be higher than anticipated earlier, because of the persistence of high interest rates on borrowed funds. For the years 1984-1989, debt service costs are now expected to be $100 billion higher than the February 1984 forecast.

Debt service costs represent a large and growing share of budget outlays. Interest payments on the debt will represent about 13 cents per dollar of budget outlays in fiscal 1984, as compared to less than 8 cents per dollar ten years ago, according to Tax Foundation researchers. Net interest (gross interest on the public debt less interest received by social security and other funds) is estimated at $109.5 billion in 1984—the equivalent of $300 million a day—and at $130.9 billion in 1985. By 1989, OMB puts net interest costs at $153.1 bil-

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Federal Deficits, Debt Outstanding, and Related Measures

Selected Fiscal Years 1974-1985[a]
(Billions)

Year	Receipts	Outlays[b]	Deficit[b]	Gross Federal debt[c]	Net interest
1974	$263.2	$269.4	$-6.1	$486.2	$21.4
1975	279.1	332.2	-53.2	544.1	23.2
1976	298.1	371.8	-73.7	631.9	26.7
1977	355.6	409.2	-53.6	709.1	29.9
1978	399.6	458.7	-59.2	780.4	35.4
1979	463.3	503.5	-40.2	833.8	42.6
1980	517.1	590.9	-73.8	914.3	52.5
1981	599.3	678.2	-78.9	1,003.9	68.7
1982	617.8	745.7	-127.9	1,147.0	85.0
1983	600.6	808.3	-207.8	1,381.9	89.8
1984	670.7	857.8	-187.1	1,575.6	109.5
1985	758.0	948.1	-190.1	1,806.9	130.9

[a] Data for 1984 and 1985 are based on current services estimates presented by the Administration in August 1984.
[b] Includes activities of off-budget agencies; no receipts are attributable to these transactions.
[c] End of fiscal year.
Source: Office of Management and Budget, Department of Commerce; and Tax Foundation computations.

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ceipts of $362.1 billion).

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy.

In comparison with the 14.9 percent annual rate climb in GNP during the first quarter, Federal taxes climbed 21.0 percent, nearly twice the concurrent 10.9 percent rise in state-local taxes.

Rising social insurance and corporate income tax collections accounted for nearly two-thirds of the dollar rise reflected in the Tax Index. Federal social insurance contributions rose at an annual rate of 31 percent in the latest quarter, pushing the associated Tax Index to 710.2 percent of its 1967 base. At the same time, the Index for Federal corporate profits taxes jumped by an annual rate of over 45 percent during the quarter.

While the Federal corporate profits Tax Index remains relatively low, vis-a-vis some other segments of the overall Tax Index—at 243.1 percent of its 1967 base—the state-local corporate profits Tax Index, at 802.8 in the first quarter of 1984, has been one of the fastest rising components of the Index.

Federal, state, and local taxes in the first quarter were 11.3 percent higher than for the same period in 1983. By comparison, real output rose by 8.1 percent and general prices by 3.6 percent, raising GNP in current dollars by 12.0 percent for the same period.

The highest-growth component of the Tax Index has been the state-local personal income tax. Personal income taxes levied by state governments and localities have risen so rapidly that the Index for these receipts reached 1,001.3 in the first quarter of 1984—becoming the first Tax Index component to surpass 1,000. This represents an increase of 15.2 percent from the same period a year before.

The first-quarter Index for Federal personal income taxes stood at 457.6, following a "pre-tax cut" high point of 468.1 in third quarter 1981.

Personal income tax receipts for all government levels combined started this year at an Index level of 506.1, up by 3.1 percent from a year before.

Contributions for social insurance are pressing to join the "700 club," at an Index level of 696.1 for the first quarter (up 12.6 percent from a year ago). Federal social insurance taxes (mainly social security) have been the prime mover in raising this component of the Index. Federal social insurance taxes reached an Index level of 710.2, up 13.1 percent for the year. (These taxes, on an aanual basis, now amount to just over one quarter of a trillion dollars earmarked to finance Federal social insurance programs.)

Indirect business taxes reached an Index of 407.1 at the start of this year, up 10.9 percent over the year. At the Federal level, these taxes reached a 308.4 Index, up by 16.3 percent.

Taxes on corporate profits jumped by more than 50 percent from the same period a year ago, roughly in proportion to the recovery in corporate profits themselves. Corporate profits tax accruals came to a first quarter Index level of 285.4, up from a recessionary low point of 169.0 in the fourth quarter of 1982. This year's figure compared to the same period a year before represents an increase of 56.8 percent—55.6 percent at the Federal level, and 61.5 percent among state and local governments that tax corporate income.

The table on page 1 provides further details.

Social Welfare Claims 34¢ Per Spending $

Major social welfare programs in the United States claimed more than one-third of every dollar spent by Federal, state, and local governments in fiscal year 1982, the latest for which full data are available, according to Tax Foundation analysts. The costs of these programs came to $416 billion out of a spending total in excess of $1.2 trillion, accounting for 33.8 cents of every dollar of government spending. Per U.S. household, spending for these programs amounted to $4,982. Total government spending per household was $14,743.

The second most costly category of government programs in fiscal 1982 was national defense and international relations, at 16.6 cents on the dollar. Next came education (13.5 cents) and interest on general debt (9.9 cents). Per household, defense and international spending totaled $2,446; education, $1,988; and interest, $1,458.

The Federal social security system (OASDHI) is by far the largest among the major social programs analyzed by Tax Foundation economists. It accounted for 16.3 cents of each public expenditure dollar in 1982. Also included in the grouping are social services and income maintenance (public welfare, health and hospitals, and unemployment insurance benefits); veterans' programs that are not classified under other functions; railroad retirement; and government employee retirement. The sum of these major programs understates the size of the social welfare "spending total," broadly defined, in that it excludes public education (shown as a separate category), as well as subsidized housing and many veterans' programs for which the data are not segregable from other groupings, say Tax Foundation researchers.

Growth in the social programs has outdistanced that of other government programs by a wide margin. In 1982, social welfare spending was over 13 times what it was in 1960, while other programs grew to only 6.8 times their size over the same two decades. The 33.8 cents per dollar share of all spending held by social programs in 1982 reflected a rise from 20.6 cents in 1960 and from 25.8 cents in 1970.

Costs for national defense and international programs in 1982 came to less than half of the social welfare total, at 16.6 cents per dollar of all public spending. This fell far below the 25.3 cents per dollar that went for defense in 1970, and the 32.3 cents per dollar that defense needs commanded in 1960.

While education received a somewhat higher share of public funds in 1982 than in 1960, its 13.5 cents per dollar claim on the total in 1982 declined from 16.7 cents in 1970 and 15.0 cents in 1980.

In recent years, the fastest growing cost of government has been interest on general debt, which rose from 6.2 cents per dollar in 1960 to 9.9 cents per dollar of total spending in 1982. The costs of paying interest on government borrowing grew 60 percent from 1980-1982.

The four largest catagories of spending—major social welfare, defense and international relations, education, and interest—accounted for a combined total of 73.8 cents per dollar of all spending in 1982, or $10,873 per U.S. household. Among the remaining categories, the most notable change since 1960 was the relative decline in the transportation category, as the interstate highway system authorized in 1956 neared completion.

The accompanying table provides further details.

"In 1982, social welfare spending was over 13 times what it was in 1960, while other programs grew to only 6.8 times their size over the same two decades."

MARK YOUR CALENDAR

Tax Foundation's **36th National Tax Conference** and **47th Annual Dinner** will be held this year on **Wednesday, December 5, 1984,** at the Plaza Hotel in New York City. Complete details and reservation forms for the Conference and Dinner will be in the mail shortly.

Unitary Tax Proceedings Now Available

"State Income Taxation of Multinational Corporations," Proceedings of a Tax Foundation seminar held in Chicago, Illinois, on May 10, 1984, on unitary taxation is now available.

This publication explores the legislative and judicial history of the question, the current tax treatment afforded multinationals by states employing the unitary concept, and possible solutions for resolving the differences among the states, the multinationals, and the Federal government.

Copies are available direct from the Tax Foundation at $15.00 each ($12.00 members), plus $1.00 postage and handling per order.

How Federal, State, and Local Governments Spend Each Dollar of Public Funds

Selected Fiscal Years 1960-1982

Function	Cents per dollar of total spending			
	1960	1970	1980	1982
Major social welfare programs, total	20.6	25.8	33.6	33.8
Social security (OASDHI)	7.1	10.8	15.6	16.3
Social services and income maintenance[1]	8.5	10.7	13.0	12.6
Government employee retirement	1.4	1.9	3.0	3.0
Veterans (not elsewhere classified)	2.5	1.6	1.3	1.2
Railroad retirement	.6	.5	.5	.4
Veterans' life insurance	.4	.3	.1	.1
National defense and international relations	32.3	25.3	15.6	16.6
Education	12.8	16.7	15.0	13.5
Interest on general debt	6.2	5.5	7.9	9.9
Environment and housing	5.4	4.4	4.9	5.0
Utilities and liquor stores	3.4	2.8	3.8	3.9
Transportation	7.6	6.2	4.4	3.6
Public safety	1.8	2.0	2.3	2.2
Government administration	1.8	1.9	2.2	2.0
Postal service (Federal)	2.5	2.3	1.9	1.8
Sanitation	1.1	1.0	1.4	1.2
All other	4.5	6.1	7.0	7.9
Exhibit (billions):				
Total spending	$151.3	$333.0	$958.7	$1,231.4

[1] Includes public welfare, hospitals, health, and unemployment insurance benefits.
Source: Department of Commerce, Bureau of the Census; and Tax Foundation computations.

"Social security taxes have more than doubled their share in the total revenue system."

Individual Income Tax Biggest Revenue Raiser

Individual income taxes took in the big money for U.S. governments in fiscal year 1982, latest for which details are available. Such taxes furnished 30.5 cents out of every revenue dollar collected by Federal, state, and local governments, according to Tax Foundation researchers.

Next came social security payroll taxes (OASDHI), at 15.9 cents per dollar of total revenue; current charges and user fees, 8.9 cents; miscellaneous general revenue (interest earnings, special assessments, etc.), 8.0 cents; property taxes, 7.2 cents; selective sales and excises, 6.9 cents; corporate income taxes, 5.6 cents; and general sales taxes, 5.3 cents.

Examining revenue trends in the period since 1960, Tax Foundation economists point out a number of significant modifications in the way government programs are funded.

- More public spending is now financed by borrowing. In 1982, nearly 14 cents of every dollar of Federal spending was borrowed. This was partly offset by state-local surpluses, to bring net borrowing by all governments to 7 cents per dollar of spending. (In 1960, a surplus in Federal accounts more than offset a smaller deficit in state-local accounts.)
- The role of taxes in financing government services has declined relative to nontaxes. The share of taxes in the revenue dollar dropped from 82.7 cents in 1960 to 76.2 cents in 1982; nearly all of the reduction came after 1970. In 1982 taxes were 7.5 times their size in 1960; nontaxes were more than 10 times their size then.
- Social security taxes, the fastest growing revenue source, have more than doubled their share in the total revenue system. In 1982, they were 17 times as large as 22 years earlier.
- Over the years corporate income taxes, selective sales and excise taxes, and property taxes have played a declining role in the overall revenue structure.

The accompanying table provides further details.

How Federal, State, and Local Governments Raise Each Dollar of Public Funds

Selected Fiscal years 1960-1982

Source	Cents per dollar of total revenue			
	1960	1970	1980	1982
Tax revenues	82.7	82.4	78.2	76.2
Individual income	28.2	30.3	30.7	30.5
Social security (OASDHI)	7.0	11.5	15.0	15.9
Property	10.7	10.2	7.3	7.2
Selective sales and excises	12.5	9.8	6.5	6.9
Corporate income	14.8	11.0	8.4	5.6
General sales	3.5	4.8	5.5	5.3
Other taxes[a]	6.0	4.8	4.8	4.9
Nontax revenues	17.3	17.6	21.8	23.8
Current charges	8.1	7.9	8.6	8.9
Miscellaneous general revenue[b]	3.3	4.0	6.7	8.0
Employee retirement	1.9	2.5	3.1	3.3
Utilities and liquor stores	3.2	2.6	2.7	2.9
Other nontaxes	.8	.6	.7	.6
Exhibit (billions):				
Total revenues	$153.1	$333.8	$932.2	$1,144.8
Surplus (+) or deficit (−)	+$ 1.8	+$ .8	−$ 26.5	−$ 86.6

[a] Includes death and gift, motor vehicle and operators' license, unemployment compensation, and miscellaneous taxes.
[b] Includes interest earnings, special assessments, sale of property, and others.
Source: *Facts and Figures on Government Finance, 1983*, Tax Foundation, Incorporated; basic data from U.S. Department of Commerce, Bureau of the Census.

(U.S. DEFICIT, from page 2)

lion, and the CBO places the tab at $214 billion. In other words, the costs would fall somewhere between $419 million and $586 million each day of the year, according to Tax Foundation economists.

In the past ten years the size of the gross Federal debt has more than tripled, rising by $1.1 trillion, from $486 billion to almost $1.6 trillion. At the same time, net interest outlays on the debt have risen to five times their size in 1974, because of higher indebtedness and higher interest rates. At the end of June 1984, the average interest rate being paid by the Treasury on borrowed funds was 10.829 percent, up from 6.560 percent ten years earlier.

The table on page 2 provides additional details.

Toward Better Government Founded 1937

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